

Confidential

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G.O. No. *46.*

DATED *12-1-16*

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[Despatch Abstract.]

*State encouragement of
industries : — Confidential.*

BACK PAPERS.

G.O.	No.	Department.	Date.	G.O.	No.	Department.	Date.

FURTHER PAPERS.

G.O.	No.	Department.	Date.	G.O.	No.	Department.	Date.



P. O. No. 17390.

GOVERNMENT OF INDIA.

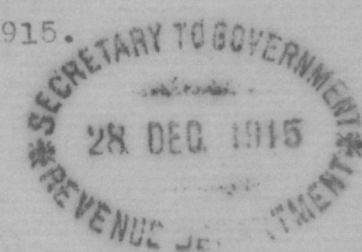
DEPARTMENT OF COMMERCE AND INDUSTRY.

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REVENUE - C
3272

Simla, the 23rd December 1915.

(Industries).



Rep 29/11-

Dear Mr Davidson

I am desired to forward, for the confidential information of the Government of Madras, -- an advance copy of a despatch No. 51, dated the 26th November 1915, to His Majesty's Secretary of State for India, on the subject of the State encouragement of industries.

Yours

[Signature]

To

The Honourable Mr. L. Davidson, C.S.I., I.C.S.,
Secretary to the Government of Madras,
Revenue department.

This shd. be made over to the
Educ. Dept - which will no doubt circulate
at once to St. Hs & St. E. Hs. Govt

Educ. Dept

29-12-15

He

R. A. M.

Rev. no. M 3272 C/15.1
29-12-15

C. & I. - E. 215.

CONFIDENTIAL.

No. 51 OF 1915.

GOVERNMENT OF INDIA.

DEPARTMENT OF COMMERCE AND INDUSTRY.

INDUSTRIES.

To

THE RIGHT HONOURABLE AUSTEN CHAMBERLAIN,

His Majesty's Secretary of State for India.

Delhi, the 26th November 1915.

SIR,

We desire to place before you certain proposals on the subject of the policy which should be pursued by the Government of India in respect of the State encouragement of industries. There are many reasons why we feel it necessary at this juncture to bring to your notice our views on this important question, which has now for some time been receiving our earnest consideration. It is becoming increasingly clear that a definite and self-conscious policy of improving the industrial capabilities of India will have to be pursued after the war, unless she is to become more and more a dumping ground for the manufactures of foreign nations who will be competing the more keenly for markets, the more it becomes apparent that the political future of the larger nations depends on their economic position.

2. The attitude of the Indian public towards this important question is unanimous, and cannot be left out of account. Manufacturers, politicians, and the literate public have for long been pressing their demands for a definite and accepted policy of State-aid to Indian industries: and the demand is one which evokes the sympathy of all classes of Indians whose position or intelligence leads them to take any degree of interest in such matters. As far back as 1906, the opponents of the partition of Bengal found a rallying cry that united all sections of the community in the word "Swadeshi," which summed up the universal desire to see India a manufacturing country as well as a mere exporter of raw materials, and expressed the duty which lay on every patriotic Indian to help on the consummation of this end, whether as a consumer or as an investor.

3. Although this movement was a failure, owing to the lack of technical knowledge and business aptitude on the part of its leading participants, the desire which gave birth to it has been in no way diminished. The people have recognised their inability to carry out their programme without the help and guidance of Government and confine themselves for the most part to pressing their demands for assistance from the State, and for a policy of tariff discrimination against foreign imports. Public sentiment has again and again expressed itself in the form of resolutions and questions in the Imperial and Provincial Councils, of resolutions in the Indian National Congress and at public meetings, and of articles in the press. In Bombay particularly, where Indian commercial opinion is relatively more highly educated and has been stimulated to greater keenness by foreign competition, the movement in the direction of enlisting Government sympathy in an active propaganda of industrial expansion has been most marked for some years past. This movement which has acquired considerable political significance in India generally has followed two particular lines of expression. In the first place, there is the constant asseveration that the British Government in India have with malice intent or, if not with malice, by their attitude of

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indifference, allowed indigenous industries to be overwhelmed by foreign and especially by British competition. The second charge is that the British system of education has confined the energies of educated young men to literary pursuits and the learned professions and has created among them a demand for employment limited to Government service, the law and medicine. It is to the overcrowding of these avenues of employment that much discontent and unrest are attributable. These contentions emphasise one aspect of the need for an industrial policy which will enable technical education in India to produce its best results and which will lighten the pressure on purely literary courses and reduce the excessive demand for employment in the services and callings to which these courses lead up.

4. Finally, we would draw attention to the special conditions created by the war. The prohibition of imports from enemy countries during the war has been generally welcomed as offering an opportunity for the replacement of the manufactures of these countries by articles produced in India, in spite of the difficulties which must occur at such a time as the present when capital is timid and skilled industrialists are lacking. After the war India will consider herself entitled to demand the utmost help which her Government can afford to enable her to take her place, so far as circumstances permit, as a manufacturing country. This desire, if thwarted, will certainly turn, and already shows signs of turning, into an insistent request for a tariff penalising the import of all articles from abroad, whether British or foreign; and the demand for fiscal protection will inevitably be intensified and will become increasingly difficult for Government to rebut without laying itself open to the charge of neglecting Indian interests, unless it is able to put forward an alternative policy for the promotion and development of industries in this country.

5. In view of these facts, we have been led to a careful examination of the facilities which we possess for attempting the policy demanded of us. We find that, though isolated attempts have been made by some Local Governments to aid indigenous industries, they have not attained any marked degree of success, owing to lack of technical equipment, of co-ordination, and most important of all, of any general guiding principles. The question of such a policy has never been considered for India as a whole: and the Government of India have consequently had to deal with the industrial proposals of Local Governments without any general principles to guide them, without any accepted experience or authoritative advice on which to rely, and with the feeling that they were to a large extent debarred from accepting certain classes of proposals, which the history of industrial progress in this and other countries has shown to contain some promise of success.

6. The greatest industry in India is, and will for long be, that of agriculture. We may, then, perhaps refer to our agricultural policy for an analogy to help us in the discussion of the present question. Here we see that in spite of the numerous failures that had to be recorded before the isolated efforts of Local Governments were co-ordinated by a generally accepted policy, which involved the extended employment of expert assistance, the Departments of Agriculture under Local Governments are now pursuing, with varying degrees of efficiency, but on the whole with remarkable success, the lines laid down for them some ten years ago. The need for a considered central policy is, in some respects, more urgent in the case of the manufacturing industries than in that of agriculture. So far as agriculture is concerned, it is unnecessary for us to take into account either the competition of Government farms with private producers or the competition of local areas *inter se*. With regard to industries, on the other hand, account must be taken not only of the competition with private enterprise, but also of competition with similar industrial pioneering efforts in other parts of India. Without such co-ordination, two industries might find themselves forced into close competition with disastrous results to either or both. These, then, are the general postulates of such a policy as we propose: and if these are duly fulfilled, we may entertain good hopes that the development of a general policy of State-aid to the manufacturing industries in this country, though the difficulties are undoubtedly greater than in the case of agriculture, may be attended with better results than have been attained by the somewhat haphazard methods hitherto pursued. In order to give some idea of the difficulties experienced by the Government of

India in their attempts to frame a policy, we will proceed briefly to describe the steps which have hitherto been taken in that direction.

7. These steps have hitherto been along one or other of the following lines:—

- (a) Technical and industrial education.
- (b) Instruction and advice.
- (c) Financial assistance to new and nascent industries.
- (d) Demonstration factories.

8 (a) *Technical and industrial education.* Though this subject is important and is perhaps the one line in which any approach has been made to a definite policy, it cannot be said that it has had any marked effect on the development of Indian industries. The various forms of technical education, whether of the nature of workshops, industrial schools, technical colleges or institutes, have, in some cases, produced artisans; in the case of Bombay, where Indian industrial development had already made considerable progress, they have evolved men, who after a few years' work in existing factories, have become successful engineers, weaving and spinning masters and even factory managers; but even in Bombay there is no instance in which they have created or appreciably extended an industry. It was at one time undoubtedly expected that they would bring this about, apparently on the mistaken analogy of Japan, where, however, the first step taken towards State industrial aid was by starting demonstration factories under European control. Technical institutes, we understand, were not set up there till after these factories had been in progress for some time.

(b) *Instruction and advice.* In the United Provinces a sugar engineer has been appointed to assist an industry of considerable importance; it has, however, since proved necessary to erect a small experimental sugar factory to work out certain problems and bring the results to the notice of the public. The insufficiency of mere technical advice without some form of demonstration has here been clearly felt. In Madras, the "Pumping and Boring" Department has worked successfully as an advising agency. The advantages of irrigation being fully recognised by the people, the Pumping and Boring Department has been in a position to help in the introduction of the most suitable type of pumping plant, and to inspect it and keep it in order afterwards until an indigenous agency was evolved. It extended its functions to the provision of power plant for rice hulling, flour milling, and other forms of industry, all of them, be it noted, on a small scale. It must be remembered, however, that all these industries had already been accepted as commercial possibilities, and the need for demonstration was thus very small. A few experts in various lines, such as handloom weaving, dyeing and tanning, have been appointed in several provinces, mainly with a view to the improvement of cottage industries. Assistance of a similar kind for purely agricultural objects, such as well-boring, and cotton-ginning with a view to seed production, have been carried out in Bombay, the United Provinces and the Central Provinces, and this form of assistance to industries is now generally recognised and approved. As has already been indicated, its scope is distinctly limited for it is a *datum* of industrial development in this country that Indian capital, outside the highly modernised community of Bombay, is timid and uneducated, and will not venture on what it has not seen with its own eyes as an actual working success.

(c) *Financial assistance to new or nascent industries.*

The following cases only have come under the notice of the Government of India.

- (1) A small loan free of interest to a dairy in Shillong, given in 1900.
- (2) The grant of Rs. 30,000 to an Indian sugar manufacturer in 1912 to enable him, with the assistance of the Government sugar expert, to remodel a badly designed factory.
- (3) A loan of 7 lakhs to a firm of European planters at Babhnauli to start a sugar factory on modern lines.
- (4) A loan of Rs. 37,500 to an oil mill at Cawnpore to enable it to modernise its plant.

In the second and third cases, the condition was imposed that the advice of the Government Expert should be followed in the purchase and erection of the plant, and the factory should always be open for inspection by persons interested in the industry.

There may be other cases in which Local Governments, under the financial powers possessed by them, have taken similar action, but such cases have naturally not come to the notice of the Government of India, and there is reason to believe that they must, in any case, be few and unimportant.

In passing orders on the proposals for these loans or subventions, we have always found ourselves confronted by the following difficulties. We had no accepted policy, and no technical advice to guide us, nor had we any information available regarding the degree of success attained by similar measures in the past. Similarly, the recommendations of the Local Governments do not seem to have been based on any general principles. This defect is especially dangerous in the case of proposals for financial assistance by way of loans where the grant of one request is certain to lead to others which it becomes difficult to refuse without creating a suspicion of unfair treatment. The whole question requires careful examination with a view to discovering the lines on which such assistance can best be given, under what conditions and within what limits.

(d) *Demonstration factories.*

The first attempt to organise a pioneer industry was the development of aluminium hollow-ware manufacture by the Madras School of Arts. This was begun in the year 1898, and in 1903 the business was sold to the Indian Aluminium Company, an imitator and rival, for Rs. 2,09,600. The School of Arts never actually showed a profit on its aluminium work, as surpluses were mostly spent on experiments; but the Indian Aluminium Company thought, and thought rightly, that the manufacture of aluminium hollow-ware had been shown to be a profitable venture. The Company, though it has several imitators, small and large, in various parts of India, is now making a profit, which sometimes exceeds, and seldom falls short of 10 per cent. It pays a monthly wage bill of Rs. 5,000; and in addition to its European Business Manager employs an Indian works manager, a B. E. of the Madras Engineering College, on Rs. 500 a month and commission. The benefit to the country generally from the demonstration of this particular industry has been appreciable; and the foreign aluminium producer, who could with difficulty have imported his light and bulky manufactured ware to compete with locally manufactured brass and copper, sold Rs. 25.51 lakhs worth, or 35,809 cwts. of aluminium to India in the year 1912-13, against Rs. 1.05 lakhs, or 890 cwts., in 1904-05. Before the Madras School of Arts took up the business, the import was infinitesimal.

Prior to the experiments undertaken in Madras by Government, chrome-tanning was always thought impossible under Indian climatic conditions. The process was started in Madras on a commercial scale; and in 1910, after 7½ years' working, the factory was sold. The results of working were as follows:—

				Rs.
Capital Cost	...	...	...	69,596
Cost of Working	...	...	...	4,86,814
		Total	...	5,56,410
Receipts	...	...	...	4,04,780
Sale of factory and stock	...	...	...	96,272
		Total	...	5,01,052

Objections were lodged by private traders on the ground that the State was competing with private interests and operations, in consequence, were gradually restricted with injurious effects on profits, and ultimately the factory was sold. But Mr Chatterton, who was responsible for the working of this as well as of the aluminium factory, claims that, at a cost of Rs. 55,000, the practicability

of chrome-tanning in India has been proved and a large and flourishing industry rendered possible. The lead thus given by Madras was followed by the United Provinces Government whose demonstration chrome-leather factory is mentioned in the eleventh paragraph of this despatch. Private chrome-factories are now in existence in Cawnpore, Calcutta, Cuttack and Bangalore.

After the war started, the Madras Industrial Department considered the idea of taking over and managing a glass works in Madras, a paper works, a pencil factory and a match factory, on an experimental basis, and it is understood that the pencil factory has started working and that some progress has been made with the other proposals, but nothing is known as to the terms on which these factories are being taken over. The Director of Industries is also arranging to set up an oil-expelling plant. No definite degree of success can, it is understood, be claimed as yet in respect of any of these ventures. A grant of 2 lakhs was assigned by the Madras Government for these and other purposes.

Certain steps have been taken by the United Provinces in respect of pioneering new industries which are worthy of note. In view of the opening which appeared to exist for the manufacture of cotton seed oil in India, Sir J. Hewett decided to start a factory for the purpose of experimenting in, and demonstrating the possibility of, this process which was at that time thought to present special difficulties in view of the peculiarities of Indian cotton seeds. The United Provinces Government accordingly set up a cotton seed oil factory at Cawnpore at a cost of Rs. 55,000. The mill was run by Messrs. Begg, Sutherland on a monthly remuneration, on the condition that all losses should be recouped by Government. The seed was pressed undecorticated and the cake did not find a ready market. The Local Government closed down the venture in 1911, in consequence, we understand, of certain orders of the Secretary of State which will be alluded to below. No official reference on the subject was made to the Government of India. There are now in India two fairly large and successful cotton seed oil mills financed by Indian capital which were started, it is stated, largely as a result of this demonstration factory.

9. The establishment of pioneer factories was not approved by Lord Morley; and a discussion took place between the Government of India and your predecessors, the history of which will be given in greater detail below when we come to consider the causes which have led to our present difficulties. It must be admitted also that criticism has not been wanting in India itself of the policy of pioneer factories. There is always the temptation on the part of an enthusiast to extend operations in the hope that this may turn a deficit into a credit balance, forgetting that the larger the operations of the factory, the greater are often the difficulties in ultimately disposing of it and the greater the probability that private traders will protest against its extending activities. The retail boot and shoe business, attached to the Madras chrome leather factory in the hope of enabling it to show a profit, caused an amount of ill feeling in commercial circles quite disproportionate to the modest additional gain brought by it to the financial side of the undertaking. If again, the concern proves successful, objections are often raised by the official manager to bringing the venture to its logical conclusion and handing it over to private enterprise. Moreover, dissatisfaction has been freely expressed at the fact that, though the primary object of a pioneer factory is to show that a particular industry is financially profitable when conducted on a commercial scale and on business lines, the accounts are seldom presented in a way that commands the confidence of business men. It is clear then that though undoubted success has been obtained by pioneer factories in certain instances, there is a considerable element of doubt whether the degree of success has been sufficient to warrant the acceptance of the principle of State demonstration of industries on a commercial scale, and, if accepted, what are the circumstances under which it should be adopted and the conditions under which it should be carried on. Here, too, we feel ourselves in need of disinterested and skilled advice based on a thorough consideration of such local data as are available, and of the experience of other countries where a similar policy has been tried.

10. We have hitherto assumed that it is open to the Government of India to attempt all or any of the methods above described, and we have enlarged only on the difficulty that we have felt in deciding which of them is the most promising

and what are the conditions under which it can most suitably be brought into operation. We shall proceed, as we have already indicated, to put forward proposals in this despatch for an enquiry by a Committee of qualified experts and business men into these questions. But before doing so, we must solicit your assistance in the removal, at any rate provisionally, of a preliminary obstacle. In order to explain the nature of this obstacle, it is necessary for us to recount, in some detail, the history of the discussion which took place between the Government of India and Lords Morley and Crewe between the years 1909 and 1912 on the subject of direct State-aid to industries.

11. The first expression of opinion by the Secretary of State on the policy of Government pioneer factories is to be found in Lord Morley's despatch No. 110-Public, dated the 30th July 1909. The proposal was nominally for a 'chrome leather tanning' school in the United Provinces to which a school for teaching boot and shoe-making with improved tools would be attached. This was evidently of the nature of a pioneer factory, for the United Provinces Government spoke of the possibility of "selling it to private capitalists" later on and described the articles it would manufacture. The fact that the demand for chrome leather for agricultural purposes would have to be worked up was given as a reason why Government should undertake the enterprise. Lord Morley raised no objection. His despatch states: "The chrome leather tanning school and boot and shoe factory is said to be the only branch of industry which the Lieutenant-Governor at present desires to pioneer. It also follows lines already developed in Madras, and is intended to furnish agriculturists with improved waterbags and buckets; and if the experiment proves successful there would, it is stated, be no difficulty in selling the business to private capitalists. The proposed carpentry school at Bareilly is intended to develop an existing industry; and the engagement of a button maker to be attached to the Lucknow Industrial School requires no special justification.

"All these branches of the scheme appear to me to be useful and promising experiments, and I shall have no difficulty in agreeing to their being undertaken whenever the Lieutenant-Governor is in a position to provide the necessary funds. While I recognise fully the necessity of giving a fair trial to any schemes of industrial development which local responsible opinion considers useful, I would also lay stress on the necessity for the prompt abandonment of an experiment which is failing, and for incurring as small an initial expenditure on buildings as is compatible with an adequate trial of the scheme."

Lord Morley appears to have changed his ground, however, when on being confronted with the larger Madras proposals, he realised the extent of the policy to which he was being asked to commit himself. The proposals of Madras, which were throughout merely general in nature in favour of pioneering industries, are found in paragraph 6 of Madras letter No. 4294-A.-08-1, dated the 3rd March 1909. "On the general and cardinal question whether State intervention is desirable or necessary in fostering industrial development in a country in which private industrial effort has hitherto been either spasmodic or practically non-existent, the opinion of so representative a body as that which assembled at the recent Conference is entitled to great weight. Resolution No. 5 of the Conference which relates to this matter represents the opinion of 35 out of the 38 gentlemen who composed the Conference. This Resolution lays down that, subject to the restrictions therein specified, the Government may undertake, as a pioneer, the introduction of new industries or industrial processes for the purpose of training students or apprentices or for demonstrating that such industries will be commercially successful. His Excellency in Council is in entire agreement with the position taken up in this Resolution and he believes that, when Government action is so directed, private enterprise has nothing to fear, while it may have much to gain, from the association of the State in the work of promoting industrial development. His Excellency in Council has accordingly approved the recommendations of the Conference (Resolution No. 1) that there should be a special department under a special officer to deal with industrial questions and (Resolution No. 3) that this officer should be styled the Director of Industries. He considers also that to this officer should be entrusted the control of industrial instruction as defined in the 14th Resolution of the Conference, that is, instruc-

tion in the performance of definite operations not necessarily involving the teaching of general principles, but only of their applications. Technical education as defined in the 13th Resolution of the Conference will continue to be in the charge of the Director of Public Instruction".

Lord Morley in reply (Rev. No. 50, dated the 29th July 1910, paragraphs 6 and 7) expressed himself strongly against the proposal. "I have examined the account which the Madras Government have given of the attempts to create new industries in the Province. The results represent considerable labour and ingenuity, but they are not of a character to remove my doubts as to the utility of State effort in this direction, unless it is strictly limited to industrial instruction and avoids the semblance of a commercial venture. So limited, interference with private enterprise is avoided, while there still remains an ample and well defined sphere of activity. The limit disregarded, there is the danger that the new State industry will either remain a petty and ineffective plaything, or will become a costly and hazardous speculation. I sympathise with the Conference and the Madras Government in their anxiety for the industrial development of the province but I think that it is more likely to be retarded than promoted by the diversion to State-managed commercial enterprises of funds which are urgently required for the extension of industrial and technical instruction.

"The policy which I am prepared to sanction is that State funds may be expended upon familiarising the people with such improvements in the method of production as modern science and the practice of European countries can suggest; further than this the State should not go and it must be left to private enterprise to demonstrate that these improvements can be adopted with commercial advantage. Within the limits here indicated it appears to me that the objects which the Industrial Conference had in view can all be accomplished by means of technical and industrial schools; it is in such schools that a knowledge of new industries and new processes can be imparted, that the use of new implements can best be taught, and the technical skill of the artisans most readily improved. In a leather school the method of chrome tanning can be demonstrated and taught; in a weaving school the indigenous hand loom can be improved and the advantage of the improvement demonstrated. If the schools are properly managed they will supply the private capitalist with instructed workmen and with all the information he requires for a commercial venture. To convert the leather or weaving school into a Government factory in order to demonstrate that articles can be manufactured and sold to the public at a profit goes, in my view, beyond what is desirable and beyond what is found necessary in other provinces. My objections do not extend to the establishment of a bureau of industrial information, or to the dissemination from such a centre of intelligence and advice regarding new industries, processes, or appliances, provided that nothing is done calculated to interfere with private enterprise.

"I have not overlooked certain remarks in my Public despatch No. 110, dated 30th July 1909, which might be read as assenting to schemes for pioneering new industries in the United Provinces. I understand that no steps have been taken in that province in this direction, and I desire that in it and in other provinces the instructions of this despatch may be observed".

We now have to see to what extent the policy laid down in Lord Morley's despatch has been modified. In his despatch No. 24-Revenue, dated the 15th March 1912, Lord Crewe seems to have diverged somewhat materially from Lord Morley's original line. "The creation of a separate Department of Industries in the Madras Presidency must turn on the question of the functions proposed to be assigned to it. As regards the latter, I must re-affirm my predecessor's decision against the extension of its activities to trading on commercial lines. I have no doubts as to the wisdom of that decision. At the same time I desire to point out that the Government of Madras appear to have placed too limited a construction upon the orders given in my predecessor's despatch of 29th July 1910. The policy which he then sanctioned was that State funds might be expended upon familiarising the people with such improvements in the methods of production as modern science and the practice of European countries could suggest. This need not be interpreted as confining instruction solely to industrial schools. I am prepared to recognise that in

8

certain cases instruction in industrial schools may be insufficient and may require to be supplemented by practical training in workshops where the application of new processes may be demonstrated; and there is no objection to the purchase and maintenance of experimental plant for the purpose of demonstrating the advantages of improved machinery or new processes and for ascertaining the data of production. I have, for example, in view the experiment which the Government of the United Provinces is now carrying on with a small sugar plant. Such an experiment does not exceed the limits within which the Government of Madras may promote the industrial development of the Presidency".

While objecting to 'trading on commercial lines', Lord Crewe's despatch admitted the desirability of workshops for training, fitted with experimental plant, where the data of production might be ascertained. Presumably the workshops would have to dispose of their products: and the distinction between the industrial workshop approved of by Lord Crewe and the pioneer factory condemned by Lord Morley seems to be that the primary object of a pioneer factory is to show that a manufacture can be carried on at a commercial profit, and its secondary one is to train workers: while a workshop of the type above described has education for its primary object, while experiment in the possibility of commercial production is a consequence rather than an object of its operations. Lord Crewe stated in addition that he was prepared to sanction the constitution of a Department of Industries on the lines laid down by Dr. Morris Travers, which are reproduced in the Madras Government order of the 1st April 1914 cited below.

The Madras Government, after some preliminary correspondence, accepted these dicta and put forward a series of conditions under which Government demonstrative workshops might safely be started. These conditions, which the Government of India recommended for acceptance by the Secretary of State, were as follows:—

- (1) that no such undertaking shall be engaged in without prior consultation with an Advisory Board representing both Indian interests and the leading commercial and trading industries in the Presidency;
- (2) that no such undertaking for the purpose of demonstrating the commercial value of any process shall be engaged in unless enquiry has shown that no private capitalist is willing to enter upon it;
- (3) that the fullest publicity shall be given to the details of the working of any such undertakings; and
- (4) that the Government shall withdraw from any undertaking entered upon in order to demonstrate the commercial advantages of any process as soon as such advantages have been demonstrated.

After the limitations suggested by Lord Crewe had been accepted by the Madras Government, they reconstituted their Industrial Department which is now being conducted on the following lines (Madras Government Order No. 368, dated 1st April 1914).

"The functions of the Director of Industries will be—

- (i) to collect information as to existing industries, their needs and the possibility of improving them or of introducing new industries;
- (ii) to carry out and direct experiments connected with such enquiries;
- (iii) to keep in touch with local manufacturers, to bring the results of his experiments to their notice and to obtain their co-operation in the conduct of operations on a commercial scale;
- (iv) to supervise the training of students; and
- (v) to advise Government with regard to technical matters involving legislation".

The question of pioneer factories was again taken up in connection with the proposals of the Government of Eastern Bengal and Assam for a technical

9

institute at Dacca, and in their Finance Department despatch No. 252, dated the 26th October 1911, paragraph 6, regarding the above proposals, the Government of India explained their attitude in the following terms:—

"Difficult questions arise in connection with demonstration factories at the Central Institute and the establishment of pioneer factories. We have already, in our Financial despatch No. 227, dated the 21st September 1911, on the Madras industrial scheme, indicated to Your Lordship our views upon the general question, and have indicated the conditions under which we recommend the establishment of such institutions experimentally in view of the great difficulty experienced in India in getting practical training. We need only add that these factories, if instituted and maintained on a sufficiently small scale, will aim at demonstration rather than at commercial enterprise. And, if lessees can be found, the institutions might, at an early stage, be handed over on lease for a term of years." The Secretary of State in his despatch No. 12-Public, dated the 19th January 1912, did not attempt any criticism of the scheme but asked for its reconsideration in view of the redistribution of the Bengal Provinces.

12. Except so far as indicated in the above correspondence, both the Local Governments concerned and the Government of India have abstained from putting forward any proposals of a nature which appeared to contravene the orders in Lord Morley's despatch of 1910. The result has been a distinct set-back to the progress which had up to that point been achieved in Madras, and a considerable modification of the scheme for a Department of Industries which has since been accepted for the United Provinces. The main lines of Lord Morley's despatch became known to the Indian public and have frequently formed the subject of protest and of adverse criticism. The view was often expressed, however unfairly, that the veto formed part of the plan of stifling Indian industrial development, which is often made a charge against the British Government in India. Lord Crewe's despatch of 1912, while it went some way towards relieving us of the disabilities imposed by Lord Morley, still leaves the Government of India in a considerable degree of doubt as to the precise lengths to which they are justified in going when dealing with proposals for demonstration plants, financial assistance, and other forms of direct aid to industries. In view of the uncertainty in which we find ourselves regarding the extent to which, and the circumstances in which, these as well as other forms of State-aid may profitably be employed, we desire to examine the whole question *ab initio* with the help of a specially selected Committee. It is necessary, if the investigations of its members are to bear full fruit, to allow them as far as possible an unfettered discretion in respect of the methods of State-aid to industries which they would be at liberty to investigate and recommend. For this reason we would ask that, for the purposes of their investigation, the Committee, if you approve of its appointment, may be permitted to consider, as open to free discussion and examination, all questions of direct State-aid to industries, which do not involve a modification of our existing fiscal policy, and that their enquiry may not be restricted by any rigid interpretation of the rulings laid down in the despatches of Lords Morley and Crewe quoted above. The desirability or otherwise of maintaining these restrictions can then be considered afresh in the light of the Committee's findings which will, we confidently anticipate, form the basis of our future industrial policy.

13. At present, however, we do not desire to ask for more than your approval in principle of the appointment of a Committee, under the conditions explained in the preceding paragraph, composed of a suitable number of officials, business men and experts, some of whom should be acquainted with Indian conditions, some with industrial progress in other countries where similar objects have been pursued, and others with industrial problems generally and their business side. It will, we recognise, be difficult, if not impossible, at the present juncture, to secure a properly constituted Committee of the requisite type, while the disturbance of trade and industry created in India by the war will obscure the conditions which will need to be examined in the field of enquiry itself.

We are on all grounds desirous to proceed as rapidly as possible in laying what we consider the necessary foundation for our future industrial policy by the initiation of a thorough investigation on the lines we have indicated; and we shall, if you approve generally of our proposals, forward our detailed suggestions

for the constitution of the proposed Committee and its terms of reference for your sanction as soon as we think circumstances are sufficiently favourable. But we recognise that it is no less important to obtain the best possible men to conduct the enquiry and to ensure that they are in a position to do so under the most favourable conditions, and we therefore anticipate that it will in all probability be impossible for the Committee to begin its work till after the close of the war.

14. We briefly recapitulate our proposals. We have been led to recognise the paramount necessity, both on political and economic grounds, of framing a policy of State-aid to Indian industries. We have been confronted by the difficulty that, although numerous isolated efforts have been made in this direction by Provincial Governments, there is considerable diversity of opinion among those best qualified to form one regarding the value of the different methods which have been suggested or attempted from time to time. The proposed Committee would be the best agency for examining the various kinds of uncoordinated action taken by the several Local Governments and the experiments which they have made, with a view to ascertaining both causes of failure where there has been failure, and the degree of success attained where some success has been reached. We desire therefore your approval to our proposal that a properly qualified Committee should be appointed as soon as circumstances permit, to examine the whole question; and that, in order to enable them to do so to the fullest advantage they should not be precluded from a consideration of the methods of which disapproval was expressed by Lord Morley and in a lesser degree by Lord Crewe.

We have the honour to be,

SIR,

Your most obedient, humble Servants,

HARDINGE OF PENSHURST.

BEAUCHAMP DUFF.

SAIYID ALI IMAM.

W. H. CLARK.

W. S. MEYER.

C. H. A. HILL.

C. SANKARAN NAIR.

OFFICE NOTE.

SUBJECT.

State encouragement of industries.

From The Govt. of India, Departt. of Commerce & Industry
D.O. No.17390, d/23rd December 1915.

Register No. 4532 Ed1.

Circulated to His Excellency the Governor

and the Honourable Members.

The Government of India have
promised a statement of policy
in this matter at the next meeting
of the Imperial Council. Presumably
it is their intention to announce
the proposed Committee then, if not
as received in time.

1.1.16

H. E. the Governor and circ:

P

4.1.15

somewhat
I am surprised Sir Saukaran Naya

Copy.

GOVERNMENT OF INDIA.

Dept. of Commerce and Industry.

INDUSTRIES.

FROM

THE GOVERNMENT OF INDIA,

To

THE SECY. OF STATE FOR INDIA.

No. 51 OF 1915.

Dated Delhi, the 26th November 1915.

Received

SUBJECT.

Future industrial policy of the Government of India.

C16C&ID-64-20-11-15 GCBP Simla

Circled in C.Box 14.

NOTES.

Page 2

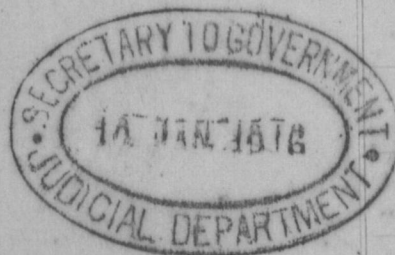
ever consented to sign this Despatch. It begins boldly enough but ends in nothing at all, not even the ^{actual} appointment of a Committee nor a direct request for the S. of S.'s views on the whole question.

Alg.

5-1-16.

I do not take so unfavourable a view of the despatch. The Govt. of India know that the India Office is hostile to the Indian Governments under-taking the pioneering of industries and they therefore walk warily and begin by asking to be permitted to refer the whole question of policy including this debatable point to a Committee. If the S. of S. agrees to that we shall have made substantial progress, and I doubt whether anything more could be done at present.

Hus
6/1



MS
8/1/16

Conf

NOTES.

Submitted that the papers may
be
Recorded

SA
10.1.16.
11/1/16

8.1.16.

[*Sp. No 46 Ed. d. 12.1.16*]



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191

READ AGAIN G.O. No. 191

CURRENT No.

ENCLOSURES TO C. No.

ORDER OF GOVERNMENT

LETTER OF GOVERNMENT.

STATEMENT WITH DITTO.

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